



# INTERNAL AUDIT TURNOVER AUDIT REAL ESTATE VALUATION

September 2, 2003

Roanoke City Council Audit Committee  
Roanoke, Virginia

We have completed our audit of Real Estate Valuation. We performed the audit in accordance with generally accepted government auditing standards.

## **BACKGROUND**

The Office of Real Estate Valuation was established in 1964 as the department responsible for appraising all real property in the City. In its 2001 business plan, the Office of Real Estate Valuation lists its key businesses as being:

- 1) To estimate the market value and equity of all real property
- 2) To conduct hearings and assessment appeals
- 3) To administer preferential assessment programs
- 4) To provide responses to inquiries

Estimating the market value of all real property annually consumes the greater percentage of the department's resources. This involves tracking sales information, ownership changes, maintaining maps of parcel boundaries, updating descriptions of property characteristics, and analyzing trends in sales in order to estimate values for all property. Each year the department inspects approximately 2,000 new or renovated buildings, conducts approximately 15,000 field inspections, hears approximately 500 appeals from aggrieved property owners, updates and reissues approximately 45,000 assessments on residential, commercial and industrial properties in the City. The Office of Real Estate Valuation currently has a staff of 13 and operates on a budget of approximately \$971,000.

In 2001, a panel of city employees assisted the Office of Real Estate Valuation in selecting a new computer assisted mass appraisal system to replace the existing system that was installed in 1982. That panel selected the PROVAL system after considering four other competing proposals. The PROVAL system is a windows based property appraisal software on which the City can maintain real estate ownership information and history, property sketches and pictures, assessment history and other historical information related to each parcel in the city.

**PURPOSE**

The purpose of this audit was to provide a limited, high level evaluation of the current functioning of the Office of Real Estate Valuation in preparation for a planned transition to a new organizational structure and new leadership.

**SCOPE**

Our audit work was concentrated in the following areas:

- Determining if there was a strategic business plan with viable goals that were being actively pursued.
- Determining if there were well developed and documented policies and procedures to reasonably ensure operations are conducted effectively and efficiently.
- Determining the status of the implementation of the PROVAL mass appraisal system.

Our evaluation is based on documents and records available at June 30, 2003.

**METHODOLOGY**

To gain an understanding of the operations in the Office of Real Estate Valuation, we reviewed prior audits conducted in the area by our staff. We reviewed related documentation including the business plan, budget, and job descriptions for the Office of Real Estate Valuation. We also reviewed the Office of Real Estate Valuation's policies and procedures manuals and its web site. We interviewed the Director of Real Estate Valuation and other members of his staff regarding the functioning of the department.

Our work related to the PROVAL system implementation was limited to interviews with personnel about the status of the implementation plan. We did not perform any data retrieval or analysis that would allow us to provide an opinion on the completeness or accuracy of the data conversion.

Our test work was limited to verifying appraisers are on target to complete an accelerated field inspection schedule necessary to fully implement the PROVAL system, and verifying that appraisers' ethics statements for the current year have been completed, signed and are on file.

**RESULTS**

We found that the Office of Real Estate Valuation had a reasonably sound business plan that identified four strategic issues / goals for the department to address. We evaluated the progress towards these goals as follows:

- Goal 1: Appraise all property within the City of Roanoke at 100% of market value; achieve an assessment / sales ratio of 95% or higher and a coefficient of dispersion of 6% or lower as measured by the Department of Taxation.

The Office of Real Estate Valuation is required by state law to assess real property at 100% of market value. The department does assess property at 100% of its market value, as estimated by its appraisers. Based on the Virginia Department of Taxation's Assessment / Sales Ratio Study published in March of 2003 and reporting sales and assessments from 2000, the City of Roanoke has a median assessment / sales ratio of 92.08% and a coefficient of dispersion of 9.41%. While these numbers are short of the Office of Real Estate Valuation's goals, the numbers are favorable on the basis of the Virginia Department of Taxation's benchmarks and when compared to surrounding localities. The median assessment / sales ratio for the State was 85.6%. As for the coefficient of dispersion, simply stated, it measures the equity and uniformity of assessments in a locality. The smaller the number, the more closely grouped the assessment / sales ratios. The Department of Taxation considers a coefficient of dispersion below 15% to indicate a good distribution of assessments and an equitable distribution of the tax burden. The following table is based on data from the Virginia Department of Taxation's 2000 Assessment / Sales Ratio Study:

Locality	Assess/ Sales Ratio	Coefficient of Dispersion
<b>Roanoke City</b>	<b>92.08</b>	<b>9.41</b>
Salem	83.94	10.95
Lynchburg	87.18	13.36
Roanoke Co.	90.40	5.96
Botetourt Co.	88.84	11.76

- Goal 2: Compile and maintain the most comprehensive and accurate database on real property and provide customers with 24-hour convenience through a combination of on-site and remote access to information on assessed values, ownership, legal descriptions, property characteristics and sales data.

We found that the Office of Real Estate Valuation has achieved its goal of providing convenient access to such data. The department loaded all property sketches and pictures into the PROVAL system early during implementation and provides access to the data through links to the City's geographic information system which is accessible through the City's web site.

- Goal 3: Implement a new organizational structure that will position the office to effectively conduct its key businesses.

We found that the Office of Real Estate Valuation developed a conceptual organizational structure in March of 2002 that reduced the number of supervisors in the office. However, the opportunity to effect those changes has not yet occurred.

Goal 4: Enhance the level of technology employed within the department to help address departmental strategic issues, enhance customer service and improve operating efficiency.

This goal primarily reflects the desire of the Office of Real Estate Valuation to replace its main frame based mass appraisal system installed in 1982 with a modern computer assisted mass appraisal system. The department installed a replacement system (PROVAL) in 2002. Based on the information we've been able to gather, it appears the implementation plan has been designed to achieve maximum utility from the new system and should satisfy the department's goal to improve operating efficiency and customer service.

The retiring Director of Real Estate Valuation believes that the business plan is due to be revisited and revised given the positive progress made towards the 2001 goals.

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Based on our review of the Office of Real Estate Valuation's documented policies and procedures, we have evaluated them to be well developed and comprehensive. The policies and procedures cover both the administrative functions of the office and the detailed processes related to the department's principal areas of functional responsibility.

The PROVAL system has a user's manual that provides sufficient documentation to support effective use of the system. The department is revising and creating new procedures for its own policies and procedures manual as needed to adapt to the PROVAL system.

Departmental policies incorporate strong internal controls such as requiring appraisers to sign ethics statements and requiring the rotation of appraisers to promote fresh perspectives when reassessing properties. We did verify that all required ethics statements were signed and on file. Management has also historically used exception reporting that identifies anomalies in assessments that warrant supervisory review (such as percentage changes in assessments that are outside the normal range, assessments that are high and low for a given neighborhood, etc.). The current compliment of reports in the PROVAL system has not yet been adequately developed to meet the department's needs. The Real Estate Valuation staff is receiving training and plans to program additional reports as needed. An upcoming upgrade to PROVAL is expected to include additional standard reports as well.

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Based on our discussions with employees in both the Office of Real Estate Valuation and the Department of Technology, the installation of PROVAL software is complete and the system is functioning as expected. The project did not experience any significant problems from either the programming or user standpoint. Work towards full implementation continues and will in essence be ongoing into the future. The appraisers will continue to be compile data, continue to fine tune the system set up, and the program will continue to be upgraded.

At this point, all property data has been input with the property conditions initially set to “average” across the board. An accelerated field inspection schedule has been developed and should result in accurate property conditions being established for all properties by the end of calendar 2004. The department will begin fine tuning the appraisal models in PROVAL once they have the first half of the scheduled field inspections completed. The PROVAL system is currently capable of producing the land book and the department stopped maintaining the old appraisal system (CARAT) on July 1, 2003. An upgrade to the software is planned for fall 2003 and is not expected to involve any significant modifications that would adversely impact implementation progress.

### **CONCLUSION**

Based on the results of our audit work, we believe the Office of Real Estate Valuation is functioning effectively and is well positioned to transition to new leadership and a new organizational structure.

We want to thank the Office of Real Estate Valuation and the Department of Technology for their cooperation and assistance during this audit.

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